



STATE OF WASHINGTON

## ECONOMIC AND REVENUE FORECAST COUNCIL

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November 9, 2006

**TO:** Representative Jim McIntire, Chair  
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**FROM:** ChangMook Sohn, Executive Director  
Economic and Revenue Forecast Council

**SUBJECT:** November 10, 2006 REVENUE COLLECTION REPORT

General Fund-State (GFS) collections totaled \$1,192.2 million in the October 11 – November 10, 2006 period. Collections were \$16.4 million below the estimate for the month. This month's shortfall was due to weaker than expected Revenue Act (retail sales business and occupation, use, and public utility) tax payments, property tax and unclaimed property transfers. Real estate excise tax payments and most other major Non Revenue Act taxes were above the estimate for the month. Despite this month's shortfall collections remain \$21.0 million above the estimate cumulatively since the last forecast. Although collection growth was a little slower than expected this month, the economic fundamentals are still positive and the forecast remains pretty much on track.

Recent economic news has been mostly positive but continues to reflect a slowing economy. Nationally only 92,000 new jobs were added in October. The weakness in the October number was mitigated, however, by a substantial upward revision to last month's jobs number. In September 148,000 new job were added, up from the initial report of 51,000. The U.S. unemployment rate fell again in October to 4.4 percent from 4.6 percent in September. October's rate is the lowest rate in more than six years. At the state level, the unemployment rate in Washington increased in September, rising to 5.3 percent from 5.2 percent in August; however, the September 2006 rate remains below the year-ago rate of 5.6 percent. Other indicators at the national level are mixed. The Conference Board reported that the U.S. Index of Leading Indicators rose in September, following declines in both July and August. Despite the gain the Index of Leading Indicators has declined five of the last eight months and declined 0.9 percent in the last six months. The Conference Board also reported that its Index of Consumer Confidence fell in October after increasing in September. The Index now stands at 105.4, down 4% from its recent peak in April 2006.

Revenue Act collections were \$15.5 million less than expected this month but remain \$28.9 above the estimate for the two months since the last forecast. Receipts this period primarily reflect September 2006 activity of monthly taxpayers and third quarter activity of quarterly filers. Revenue Act collection growth is still relatively strong despite some deceleration this period. For the month Revenue Act tax payments were 8.2 percent above the year-ago level (adjusting for special factors). Although this is weaker than last month's 12.4 percent increase, it is higher than 6.3 percent gain two months ago and it is still well above the growth of retail sales nationally. For the third quarter as a whole, collections increased 8.9 percent. Although quarterly growth also has decelerated from 10.9 in the second quarter and 12.0 in the first quarter of 2006, it continues to outpace the growth of personal income.

Preliminary information on tax payments by industry for the current period reflects a little slower, but still healthy revenue growth in most sectors of the economy. Tax payments by firms in the retail trade and food services sector increased 9.1 percent. Last month retailers reported an 8.7 percent increase. Tax payments from the auto sector, the largest retail trade category, was up 7.2 percent for the month, after increasing only 1.1 percent last month. Only two of the twelve major retailing categories reported double-digit increases this month. Last month six retailing sectors reported double digit increases. The sectors with the strongest growth this month were general merchandise stores (+19.3 percent) and apparel and accessories stores (+10.7 percent). Payments by firms in non-retail trade and food services sectors were up 7.4 percent as a whole for the month. Last month tax payments from the non-retail trade sector increased 13.5 percent. Excise taxes paid by the construction sector remained strong this month, with tax payments 17.4 percent higher than a year-ago. Last month this sector reported a 19.9 percent increase. Strong double-digit growth was reported by the finance and insurance sector (+14.4 percent) and utilities (+11.1 percent). The only major sector reporting a year-over-year decline in tax payments this period was the professional, scientific and technical services sector (-8.3 percent). Although only one major sector reported a decline in tax payments, two other important sectors reported weak gains: manufacturing (+3.1 percent) and wholesaling (+2.7 percent). Tax payments of firms in construction and housing related sectors are still outpacing activity elsewhere with tax payment from construction related sectors up 12.0 percent compared to 7.0 percent for all other sectors.

Non-Revenue Act General Fund taxes were \$1.1 million below the estimate for the month and are \$8.2 million less than expected for the two months since the September forecast. For the current month, weaker than expected property tax payments (-\$4.9 million) and "other" (-\$5.0 million), primarily unclaimed property transfers, more than offset higher than expected real estate excise tax payments (+\$8.1 million). Cumulatively since the September forecast, property tax payments are \$3.4 million less than expected and "other" (again mostly unclaimed property transfers) are \$7.9 million below the estimate. This more than offset higher real estate excise tax payments (+\$3.0 million). Both property tax payments and unclaimed property transfers are volatile on a monthly basis and some of this shortfall may be a timing issue.

Washington's taxable real estate excise activity rebounded this month, after declining more than expected last month. Real estate payments this month reflect closings reported by the state's thirty-nine counties for the September 28<sup>th</sup> through October 27<sup>th</sup>, 2006 period. Activity was 6.6 percent higher than a year-ago. Last month activity declined 9.9 percent. A breakdown of the number of transactions and average value per transaction is not yet available for October. In September, the number of transactions were 15.9 percent lower than a year-ago (the tenth consecutive monthly decline), while the average value per transaction increased 7.1 percent.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$177,000 above the estimate for the month. Cumulatively, Department of Licensing GFS collections are \$246,000 more than expected in the two months since the September forecast.

The attached Table 1 provides a comparison of collections with the September 2006 forecast for the October 11, 2006 – November 10, 2006 collection period and cumulatively since the September forecast. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

**TABLE 1**  
**Revenue Collection Report**  
**November 10, 2006 Collections Compared to the September 2006 Forecast**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u> <u>Amount</u>	<u>Percent</u>
<b>October 11 - November 10, 2006</b>				
Department of Revenue-Total	\$1,208,320	\$1,191,713	(\$16,606)	-1.4%
Revenue Act** (1)	1,045,895	1,030,373	(15,522)	-1.5%
Non-Revenue Act(2)	162,424	161,340	(1,084)	-0.7%
Liquor Sales/Liter	11,596	11,720	123	1.1%
Cigarette	4,340	4,602	262	6.0%
Property (State School Levy)	12,364	7,471	(4,894)	-39.6%
Estate	0	391	391	NC
Real Estate Excise	75,528	83,605	8,077	10.7%
Timber (state share)	0	0	0	NA
Other	58,596	53,551	(5,045)	-8.6%
Department of Licensing (2)	267	444	177	66.1%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$1,208,587	\$1,192,158	(\$16,429)	-1.4%
<b>Cumulative Variance Since the September 2006 Forecast (Sept. 11, 2006 - Nov. 10, 2006)</b>				
Department of Revenue-Total	\$2,168,600	2,189,306	20,706	1.0%
Revenue Act** (3)	1,912,166	1,941,098	28,932	1.5%
Non-Revenue Act(4)	256,434	248,208	(8,226)	-3.2%
Liquor Sales/Liter	24,899	24,420	(479)	-1.9%
Cigarette	8,848	9,014	166	1.9%
Property (State School Levy)	70	(3,335)	(3,405)	-4894.3%
Estate	0	398	398	NA
Real Estate Excise	156,504	159,502	2,998	1.9%
Timber (state share)	0	(0)	(0.0)	NA
Other	66,113	58,208	(7,905)	-12.0%
Department of Licensing (4)	732	978	246	33.7%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$2,169,332	\$2,190,284	\$20,952	1.0%

1 Collections Oct. 11 - Nov. 10, 2006. Collections primarily reflect September 2006 activity of monthly taxpayers and July-September activity of quarterly filers.

2 October 2006 collections.

3 Cumulative collections, estimates and variance since the September 2006 forecast; (Sept. 11 - November 10, 2006) and revisions to history.

4 Cumulative collections, estimates and variance since the September 2006 forecast; (Sept. and Oct. 2006) and revisions to history.

5 Lottery transfers to the General Fund

\* Based on the September 2006 economic and revenue forecast.

\*\*The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

\*\*\* Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

**TABLE 2**  
**October 10, 2006 Collection Report - Revised Data**  
**Thousands of Dollars**

Period/Source	Collections	Revised	Difference	
	Preliminary		Amount	Percent
September 11 - October 10, 2006				
Department of Revenue-Total	\$997,593	\$997,593	(\$0)	-0.0%
Revenue Act (1)	910,725	910,725	(0)	-0.0%
Non-Revenue Act(2)	86,868	86,868	0	0.0%
Liquor Sales/Liter	12,700	12,700	0	0.0%
Cigarette	4,412	4,412	0	0.0%
Property (State School Levy)-net	(10,806)	(10,806)	0	-0.0%
Estate	7	7	(0)	-6.7%
Real Estate Excise	75,725	75,725	(0)	-0.0%
Timber (state share)	0	0	0	NA
Other	4,830	4,830	0	0.0%
Department of Licensing (2)	540	545	5	0.9%
Lottery (2)	0	0	0	NA
Total General Fund-State***	998,133	998,138	\$5	0.0%

**Cumulative Receipts: September 11 - October 10, 2006 & Revisions to History**

Department of Revenue-Total	\$997,593	\$997,593	(\$0)	-0.0%
Revenue Act (3)	910,725	910,725	(0)	-0.0%
Non-Revenue Act(4)	86,868	86,868	0	0.0%
Liquor Sales/Liter	12,700	12,700	0	0.0%
Cigarette	4,412	4,412	0	0.0%
Property (State School Levy)-net after transfr	(10,806)	(10,806)	0	-0.0%
Estate	7	7	(0)	-6.7%
Real Estate Excise	75,897	75,897	0	0.0%
Timber (state share)	0	(0)	(0)	NA
Other	4,658	4,658	(0)	-0.0%
Department of Licensing (4)	529	534	5	0.9%
Lottery (4)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>\$998,122</b>	<b>\$998,126</b>	<b>\$4</b>	<b>0.0%</b>

Preliminary. Reported in the October 10, 2006 collection report.

1 Collections September - Oct. 10, 2006. Collections primarily reflect August 2006 business activity of monthly taxpayers.

2 September 1-30, 2006 collections.

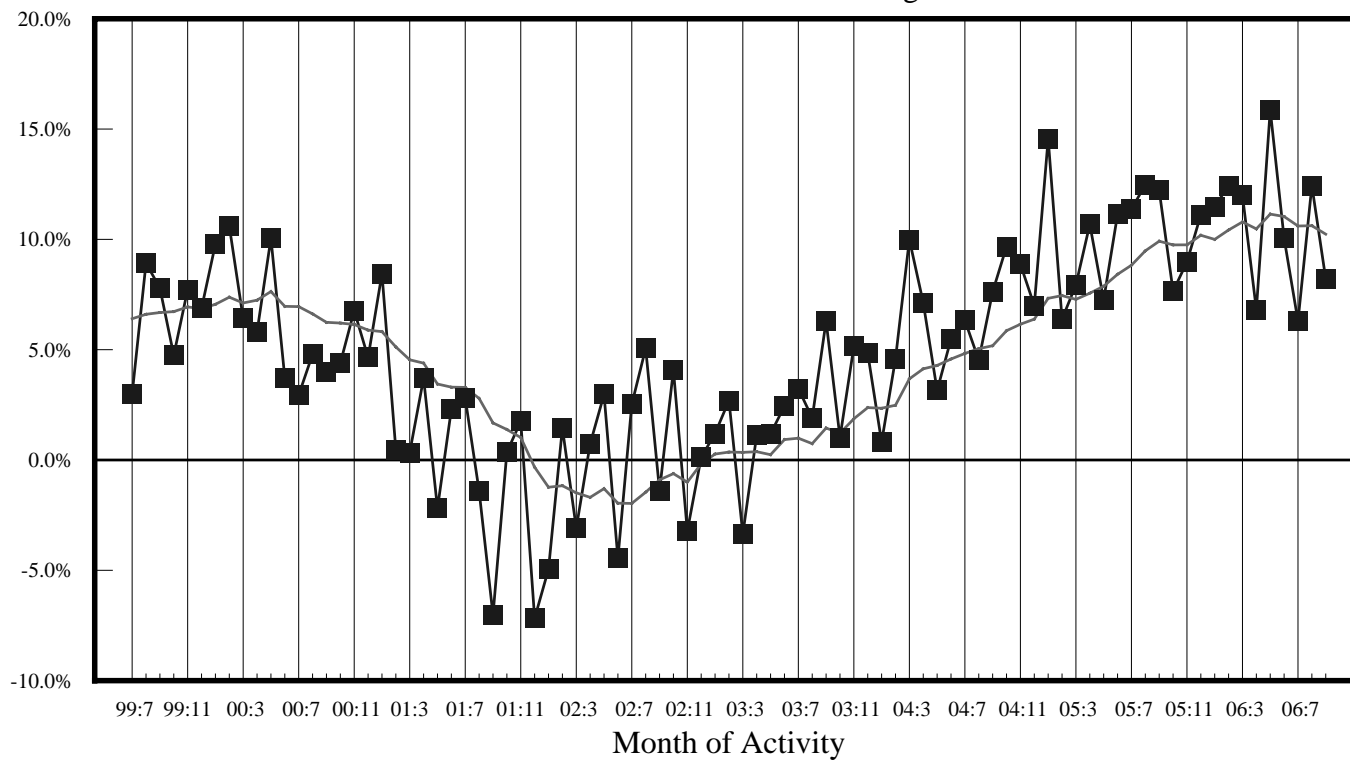
3 Cumulative receipts since the September 2006 forecast: Sept. 11-Oct. 10,2006 & revisions to history.

4 Cumulative receipts since the Sept. 2006 forecast ( Sept. 2006) & revisions to history.

\* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

# Revenue Act Net Collections

Year-over-Year Percent Change



Percent change from year-ago month



Average Growth ( twelve month moving average.)

\*growth adjusted for new legislation and unusually large assessment payments/refunds etc.